

Bank of Khartoum

(Public Limited Company)

Consolidated Financial Statements

December 31, 2019

Bank of Khartoum

Consolidated Financial Statements

December 31, 2019

<u>INDEX</u>	<u>Page</u>
Independent Auditor's Report	–
Consolidated Statement of Financial Position	1
Consolidated Statement of Income	2
Consolidated Statement of Changes in Equity	3
Consolidated Statement of Cash Flows	4
Consolidated Statement of Changes in Restricted Investments	5
Notes to the Consolidated Financial Statements	6–49

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Bank of Khartoum (Public Limited Company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bank of Khartoum (the "Bank") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of income, changes in equity, cash flows and changes in restricted investments for the year then ended, and notes to the financial statements, including summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), as well as International Financial Reporting Standards (IFRS) for matters not covered by (AAOIFI) standards and comply with the applicable laws, regulations and Central Bank of Sudan directives.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group and we have fulfilled our ethical responsibilities in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Following is a description of the key audit matters that we considered and how we addressed each matter in the context of our audit:

Impairment of financing assets

Financing assets comprise 23% of the total assets of the Group at December 31, 2019 thus it forms a significant component of the Group's financial position and the determination of provisions for impairment related thereto is considered a key audit matter.

Guidelines set by the Central Bank of Sudan (CBOS) require recognition of general provision for impairment calculated at 1% of the total financing assets that are not subject to specific provision. Past due financing accounts are subject to specific provision at varying rates based on the mode of finance and default period. Collaterals are deducted from the assets based on the types of collaterals at varying rates specified by the CBOS. Our audit procedures included understanding the nature of finance transactions. in addition, we assessed and tested the internal controls followed in granting and controlling the financing operations. We also reviewed management assessment of the risk and risk mitigants associated with the financing operations with respect to collection procedures, follow-up of past due accounts and assessment of future cashflows that may require recognition of specific provisions in accordance with CBOS guidelines.

We tested samples of the financing portfolio and the calculations of the provision for finance losses according to the relevant AAOIFI standards and the Central Bank of Sudan guidelines. Audit procedures also included assessing the adequacy of disclosures in the consolidated financial statements as at December 31, 2019.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

Foreign currency exchange differences

Foreign currency exchange differences have been considered key audit matter due to their material impact on the consolidated financial statements at and for the years ended December 31, 2019 and 2018.

Our audit procedures focused on reviewing management assessment of foreign exchange risk and the adequacy of the policies and measures implemented to monitor the Group's exposure and any related possible losses.

Our procedures also included verification of the Group's compliance to relevant AAOIFI and IFRS standards as well as the directives of the Central Bank of Sudan especially the directives that obligate the Group to deduct the foreign currency revaluation gains from retained earnings and be disclosed separately in the statement of financial position.

We have also examined reclassification of certain material account balances resulting from foreign currency differences during 2019 and the related 2018 comparative figures, to ensure that these matters have been brought to the attention of the relevant regulatory authority and the concurrence this authority with the Bank's treatment of those differences.

Other Information Included in the Group's Annual Report for year 2019

The directors are responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the other information, if we conclude that there is a material misstatement therein, we are required to report the matter to those charged with governance.

INDEPENDENT AUDITOR'S REPORT (continued)

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Financial Accounting Standards issued by the AAOIFI as well as IFRSs in matters that are not covered by the AAOIFI standards and comply with the applicable laws, regulations and Central Bank of Sudan directives, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



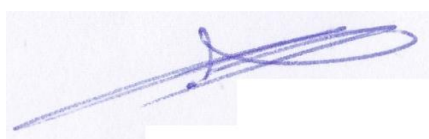
Elmamoun Hamid, CPA, CGMA

Date: April 02, 2020



Bank of Khartoum**Consolidated Statement of Financial Position****As at December 31, 2019**

	Notes	2019 <u>SDG' 000</u>	2018 <u>SDG' 000</u>
<u>ASSETS</u>			
Cash and balances with banks and financial institutions	5	54,693,989	37,285,717
Investment accounts with banks and financial institutions	6	4,264,768	855,051
Deferred sales receivables and other finances, net	7	23,138,087	27,210,197
Investment in Sukuk and financial securities	8	5,683,663	3,563,541
Investment in Mudaraba and Musharaka, net	9	688,715	404,684
Investment property	10	2,810,082	2,819,164
Assets available for sale	11	399,279	268,214
Other assets	12	7,583,760	7,133,288
Intangible assets, net	13	292,469	299,931
Property and equipment, net	14	3,828,054	3,026,798
TOTAL ASSETS		103,382,867	82,866,585
<u>LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND SHAREHOLDERS' EQUITY</u>			
LIABILITIES			
Current accounts	15	38,441,527	29,328,079
Margins on letters of credit & guarantee	16	720,175	5,887,142
Other liabilities	17	3,231,241	2,291,189
Provisions	18	433,299	587,527
Total liabilities		42,826,242	38,093,937
EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS	19	55,006,174	39,284,785
SHAREHOLDERS' EQUITY			
Share capital	20	1,016,645	1,016,645
Share premium		50,473	50,473
Reserves	21	2,649,761	3,096,552
Retained earnings		1,411,637	885,602
Total shareholders' equity of the Bank		5,128,516	5,049,272
Non-controlling interest		421,934	438,591
Total shareholders' equity		5,550,451	5,487,863
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND SHAREHOLDERS' EQUITY		103,382,867	82,866,585



Kashif Naeem Muhammed
Acting Chief Executive Officer




Mohamed Elmurtada Abdelrahem
Board Member



Mohamed Saeed Alsharif
Chairman

Bank of Khartoum**Consolidated Income Statement****For the year ended December 31, 2019**

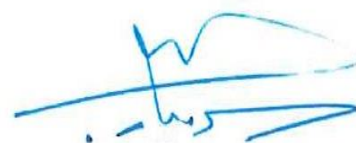
		2019	2018
	Note	<u>SDG' 000</u>	<u>SDG' 000</u>
Income from:			
Deferred sales	22	3,852,372	2,553,111
Investments:-	23		
Investments with banks and financial institutions	23/1	90,488	6,603
Investment in Sukuk and financial securities	23/2	791,816	686,749
Investment in Mudaraba and Musharaka	23/3	253,647	74,884
		<u>1,135,951</u>	<u>768,236</u>
Total income from deferred sales and investments		4,988,323	3,321,347
Less: Return to unrestricted investment account holders	24	<u>(1,620,325)</u>	<u>(1,220,347)</u>
Net income from deferred sales and investments		3,367,998	2,101,000
Net Profit /(Loss) from foreign exchange transactions		8,839	(82,391)
Income from banking services	25	1,311,606	1,484,780
Other income	26	366,856	118,700
Total revenue		<u>5,055,299</u>	<u>3,622,089</u>
Net (loss) / profit from foreign currency revaluation		<u>(241,435)</u>	<u>1,635,363</u>
Total operating income		4,813,864	5,257,452
Expenses:			
Staff cost	27	(1,585,519)	(1,072,409)
General and administrative expenses	28	(1,669,412)	(1,172,682)
Provision for finance and investment losses	7/1	(883,473)	(656,619)
Other Provision	7/2	(398,306)	(633,889)
Bank of Sudan penalties		(63)	(124)
Total expenses		<u>(4,536,773)</u>	<u>(3,535,723)</u>
Net profit before Zakat and tax provisions		277,091	1,721,729
Zakat provision	18	(29,816)	(68,529)
Tax Provision	12/8	(211,283)	(124,113)
Net profit for the year		<u>35,992</u>	<u>1,529,087</u>
Net profit for the year attributable to:			
Equity holders of the parent company		44,314	1,516,748
Non - controlling interest		(8,322)	12,339
Net profit for the year		<u>35,992</u>	<u>1,529,087</u>
Earnings per share (SDG)	30	<u>0.05</u>	<u>1.99</u>



Kashif Naeem Muhammed
Acting Chief Executive Officer



Mohamed Elmurtada Abdelrahem
Board Member



Mohamed Saeed Alsharif
Chairman

Bank of Khartoum
Consolidated Statement of Changes in Equity
For the year ended December 31, 2019

	Share Capital	Share Premium	Statutory Reserve	General Banking Risk Reserve	Fair Value Reserve	Fixed Assets Revaluation Reserve	General Reserve	Foreign Currency Revaluation Reserve	foreign Currency Translation Reserve (a)	Retained Earnings	Equity Attributable to Share Holders of the Parent Company	Non- Controlling Interest	Total Equity
	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>
At January 1, 2019	1,016,645	50,473	267,886	442,371	57,546	1,892,420	363,056	230,421	(157,148)	885,602	5,049,272	438,591	5,487,863
Cash dividends Paid	-	-	-	-	-	-	-	-	-	-	-	-	-
Bonus Shares issued	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-	-	-	-	44,313	44,313	(8,322)	35,992
Correction of error in the calculation of reserves (b)	-	-	(26,975)	(202,307)	-	-	(40,463)	-	-	269,745	-	-	-
Net changes in Fair value	-	-	-	-	18,650	13,659	-	-	4,422	-	36,731	(8,335)	28,396
Foreign currency revaluation (wahat Al Khartoum Co.)	-	-	-	-	-	-	-	(1,800)	-	-	(1,800)	-	(1,800)
Transfer to reserves	-	-	36,489	13,317	-	-	54,725	(316,508)	-	211,977	-	-	-
At December 31, 2019	<u>1,016,645</u>	<u>50,473</u>	<u>277,400</u>	<u>253,382</u>	<u>76,196</u>	<u>1,906,079</u>	<u>377,318</u>	<u>(87,887)</u>	<u>(152,726)</u>	<u>1,411,637</u>	<u>5,128,516</u>	<u>421,934</u>	<u>5,550,451</u>
At January 1, 2018	753,070	50,473	233,203	182,251	35,864	505,189	311,032	(146,862)	(5,871)	1,284,730	3,203,079	105,013	3,308,092
Cash dividends Paid	-	-	-	-	-	-	-	-	-	(135,553)	(135,553)	-	(135,553)
Bonus Shares issued	263,575	-	-	-	-	-	-	-	-	(263,575)	-	-	-
Profit for the year	-	-	-	-	-	-	-	-	-	1,516,748	1,516,748	12,339	1,529,087
Net changes in Fair value	-	-	-	-	21,682	1,274,500	-	-	(151,277)	-	1,144,905	849,665	1,994,570
Foreign currency revaluation	-	-	-	-	-	-	-	(792,638)	-	-	(792,638)	(528,426)	(1,321,064)
Prior year adjustments	-	-	-	-	-	112,731	-	-	-	-	112,731	-	112,731
Transfer to reserves	-	-	34,683	260,120	-	-	52,024	1,169,921	-	(1,516,748)	-	-	-
At December 31, 2018	<u>1,016,645</u>	<u>50,473</u>	<u>267,886</u>	<u>442,371</u>	<u>57,546</u>	<u>1,892,420</u>	<u>363,056</u>	<u>230,421</u>	<u>(157,148)</u>	<u>885,602</u>	<u>5,049,272</u>	<u>438,591</u>	<u>5,487,863</u>

(a) Foreign currency translation differences arising from the consolidation of the financial statements of the Bank's international branches whose financial statements are presented in US. Dollars and UAE Dirham.

(b) Recalculation of reserves based on the financial statements of the bank instead of the consolidated statements.



Kashif Naem Muhammed
Acting Chief Executive Officer



Mohamed Elmurtada Abdelrahem
Board Member

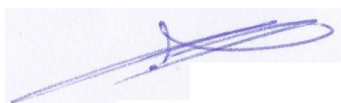


Mohamed Saeed Alsharif
Chairman

Bank of Khartoum**Consolidated Statement of Cash Flows
For the year ended December 31, 2019**

	<u>Notes</u>	<u>2019 SDG'000</u>	<u>2018 SDG'000</u>
Cash flows from Operating Activities			
Profit for the year after Tax and Zakat expenses		35,992	1,529,087
Adjustments for non-cash items:			
Depreciation and amortization	28	244,106	180,457
Provision for end of service benefits *	18	31,095	17,776
Zakat provision	18	29,816	68,529
Tax provision	18	211,283	380,535
Provision for finance losses	7/1	883,473	656,619
Other provisions	29	398,306	633,889
Foreign currency translation differences		4,422	(151,277)
Investment property valuation reserve		13,659	1,274,500
Foreign exchange gains reserve		(1,800)	(792,638)
Fair value revaluation reserve		18,650	(10,275)
Prior year adjustments		-	112,731
(Gain) on revaluation of shahama certificates		(491,761)	(232,423)
(Profits) on sale of property and equipment	26	(25,754)	(14,470)
Operating cashflows before changes in operating assets and liabilities		1,351,487	3,653,040
Deferred sales receivable		3,188,637	(13,357,244)
Current accounts		9,113,448	17,289,385
Other Liabilities		940,052	452,749
Net cash flows from operating activities		14,593,623	8,037,930
End of service benfites Paid	18	(78,135)	114,190
Zakat paid	18	(39,045)	(36,245)
Tax paid	18	(309,242)	(292,289)
		14,167,200	7,823,586
Cash flows from investing activities			
Investment accounts with banks and financial institutions		(3,409,717)	(596,410)
Investment in Sukuk and financial securities		(1,628,361)	2,353,152
Investment in Musharaka and Mudaraba		(284,031)	53,023
Investment property		9,082	(2,237,696)
Net change in non-controlling interests		(8,335)	321,239
Assets available for sale		(131,065)	210,911
Purchase of tangible and intangible assets		(1,176,859)	(1,339,035)
Proceeds from sale of fixed assets		164,713	162,900
Net cash (used in) investing activities		(6,464,573)	(1,071,916)
Cash flows from financing activities:			
Other assets		(848,778)	(5,773,024)
Unrestricted investment account holders		15,721,389	22,068,320
Margins on letters of guarantee and credit		(5,166,967)	4,940,494
Cash dividends paid		-	(135,553)
Net cash flows from financing activities		9,705,644	21,100,237
Net increase in cash and Balances with banks and financial		17,408,271	27,851,906
Cash and cash equivalents at the beginning of the year		37,285,717	9,433,811
Cash and cash equivalents at the end of the year	5	54,693,989	37,285,717

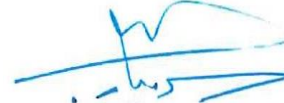
* The addition during the year dose not include any impact of change in foreign currencies differences.



Kashif Naeem Muhammed
Acting Chief Executive Officer



Mohamed Elmurtada Abdelrahem
Board Member



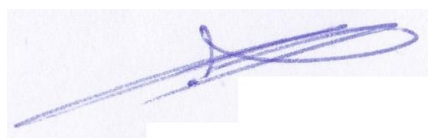
Mohamed Saeed Alsharif
Chairman

Bank of Khartoum**Statement of Changes in Restricted Investments****For the year ended December 31, 2019**

		Investment Portfolios	Restricted Deposits for Banks	Total Restricted Investments
	Notes	<u>SDG' 000</u>	<u>SDG' 000</u>	<u>SDG' 000</u>
Balance at January 1, 2019		131,592	50,000	181,592
Additions during the year		–	1,590,000	1,590,000
Withdrawal during the year		(3,780)	–	(3,780)
Profit for the year		2,652	–	2,652
Bank's fee as Mudarib		(204)	–	(204)
Profit distributions		(2,203)	–	(2,203)
Management expenses		(245)	–	(245)
Balance at December 31, 2019	32	<u>127,812</u>	<u>1,640,000</u>	<u>1,767,812</u>

For the year ended December 31, 2018

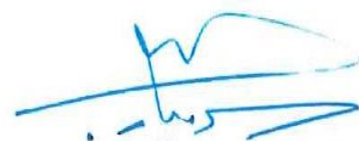
		Investment Portfolios	Restricted Deposits for Banks	Total Restricted Investments
		<u>SDG' 000</u>	<u>SDG' 000</u>	<u>SDG' 000</u>
Balance at January 1, 2018		140,748	50,000	190,748
Additions during the year		–	–	–
Withdrawal during the year		(9,157)	–	(9,157)
Profit for the year		8,854	–	8,854
Bank's fee as Mudarib		(682)	–	(682)
Profit distributions		(7,354)	–	(7,354)
Management expenses		(817)	–	(817)
Balance at December 31, 2018	32	<u>131,592</u>	<u>50,000</u>	<u>181,592</u>



Kashif Naeem Muhammed
Acting Chief Executive Officer



Mohamed Elmurtada Abdelrahem
Board Member



Mohamed Saeed Alsharif
Chairman

Bank of Khartoum

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

1. Incorporation and Activities:

Bank of Khartoum (the Bank) was founded in the year 1913 under the name of Anglo Egyptian Bank. Over the years, the Bank held many names and eventually in 1975 a presidential decree was issued by which the Bank was named as Bank of Khartoum. In 1983, the bank merged with ELshab Bank as a result of a presidential decree. In 1993 the Bank merged with Unity Bank and National Export and Import Bank. On January 1, 2002, the Bank was converted to a public limited company under the Companies' Act of 1925. In 2005, the Government of Sudan sold 60% of its shareholding in the Bank to Dubai Islamic Bank. In 2008 Emirates and Sudan Bank merged with Bank of Khartoum.

The Bank provides financial and banking services, investment and other related economical activities in accordance with the Islamic Sharia'a Principles, laws and regulatory requirements for banking and finance in Sudan.

The Bank carries its operations from its head office which is located at the intersection of Alqasar Avenue with Al- Gamhoria avenue in Khartoum and through its 122 branches (2018: 107 branches) covering Khartoum and main cities in the Sudan, as well as two overseas branches in Bahrain and Abu Dhabi and the following subsidiaries:

<u>Company</u>	<u>Activity</u>	<u>% of ownership</u>
Sudacash for Exchange Company Ltd.	Financial services	100
A2Z for Company for Sale by Installment Ltd.	Trading	100
National Trading and Services Company Ltd.	Trading	100
Sanabil for Financial Securities Company Ltd.	Financial services	100
Canar Telecommunication Company. Ltd.	Telecommunication	97.6
Irada Microfinance Company. Ltd.	Financial Services	80
Wahat AL Khartoum Urban Development Co. Ltd.	Real Estate	60
Alfahad Valuable Assets in Transit Company. Ltd.	Services	50

The accompanying consolidated financial statements include the activities of the Bank, its local and two overseas branches and its subsidiaries (together referred to as "the Group").

2. Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Shariah rules and principles as determined by the Shariah Supervisory Committee of the Bank and the applicable regulations of the Central Bank of Sudan and the Sudanese Companies' Act of 2015. In accordance with the requirement of AAOIFI, for matters where no AAOIFI standards exist, the Bank applies the relevant International Financial Reporting Standards (IFRS).

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for re-measurement at fair value of investments securities investments carried at fair value through the income statement and equity.

The group uses accrual basis in recording its assets, liabilities, revenues and expenses.

2.3 Functional and presentation currency

The consolidated financial statements are presented in the Sudanese Pound which is the functional currency of the Bank (the parent company).

2.4 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and international branches as well as all its subsidiaries which are subject to the Bank's control. The financial statements of the subsidiaries are prepared for the same reporting year of the parent company, using consistent accounting policies.

The Group's policy states that the financial statements of the subsidiaries are fully consolidated in the financial statements from the date they are acquired, which is the date on which the Group obtains control. This situation continues unless the Group loses control.

All intra-group balances, transactions, income, expenses, profits and losses resulting from intra-group transactions are eliminated in full.

Minority interests represent the portion of profit or loss and net assets not held by the Bank and are presented separately in the income statement and within equity in the consolidated statement of financial position, separate from the shareholders' equity of the parent company.

2- Basis of preparation (continued)

2.5 Judgments and significant accounting estimates

The preparation of consolidated financial statements under the financial accounting standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. The Adjustments in accounting estimates are recognized at the year in which the estimates are reviewed and any future periods affected.

The information on critical areas of uncertainty about critical estimates and judgments in applying accounting policies which have the most significant effect on the amounts recognized in the consolidated financial statements are described as follows:

2.5.1 The main sources of doubt in estimates

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. A continuous assessment of estimates and judgments is made based on historical experience and other factors including future expectations that are reasonable under the circumstances.

2.5.2 Provisions for financing and investment losses

Assets measured at historical cost are reviewed to determine whether if there has been an impairment on the basis is described in the significant accounting policies.

The specific components of the counterparty to the total impairment provisions apply to individually assessed financial assets to determine whether there is any impairment in value that requires a specific provision to be recorded and are based on management's best estimate of the present value of the cash flows expected to be collected.

When estimating these cash flows, management makes judgments about the financial position of the counterparty and the net realizable value of any related collateral. Each asset is assessed for impairment according to its characteristics, as the credit risk management independently approves the exit strategy and estimates the recoverable cash flows from that asset. Accordingly, a provision is recorded and the amount of the provision is determined in accordance with the directives of the Central Bank of Sudan.

In addition, in accordance with the instructions of the Central Bank of Sudan, a general provision is calculated at 1% of the total outstanding finance portfolio that is not subject to a specific provision, without regard to the guarantees provided.

2.5.3 Determination of fair values

The fair value of financial assets and liabilities which are not traded in an active market is determined using alternative valuation techniques based on:

- Recent market transactions on purely commercial terms.
- The current fair value of another instrument that is substantially the same.

2- Basis of preparation (continued)

2.5 Judgments and significant accounting estimates preparation (continued)

2.5.3 Determination of fair values (continued)

- Expected cash flows discounted using current equations applied to instruments with similar terms and risk characteristics.

The determination of cash flows and discount factors for investments in unquoted equity securities requires significant estimates. There are a number of investments that cannot be reliably estimated and, as a result, these investments are carried at cost less provision for impairment.

3. Summary of significant accounting policies

3.1 Transactions in foreign currencies

Transactions in foreign currencies are recorded at the exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies, are translated at the exchange rates prevailing on the balance sheet date. Realized and unrealized gains or losses on foreign exchange are credited or charged to the consolidated income statement.

According to the directives of the Central Bank of Sudan unrealized gains recognized in the consolidated income statement, are transferred to equity and held under "foreign currencies revaluation reserve" account.

3.2 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances with banks (current accounts), and balances with the central bank including statutory cash reserves, which represent restricted balances held by the Central Bank of Sudan.

3.3 Investments in Sukuk and financial securities

Based on the accounting standard No. 25, investment instruments in sukuk and financial securities are generally classified as debt instruments that are managed on a contractual basis, and equity instruments which comprise instruments that give the investor rights in the remaining net assets of the investee. Accordingly, all the investment in Sukuk and financial securities of the Bank are classified as equity instruments under AAOIFI Financial Accounting Standard No. 25 and are subject to the following policies:

3.3.1 Investments in sukuk at fair value through consolidated income statement

Comprise held-to-maturity investments which are recognized at cost on acquisition, including the cost of acquisition. At the end of the financial period, these instruments are revalued at fair value and unrealized gains or losses arising on revaluation are recognized in the consolidated income statement. As for securities that do not have active financial markets, the related revenues are estimated based on the profits distributed during the previous years.

3- Summary of significant accounting policies (continued)

3.3 Investments in Sukuk and financial securities (continued)

3.3.2 Investments in sukuk at fair value through equity

Comprise investments held for an indefinite period with the possibility of selling them for liquidity purposes. These investments are recognized at cost on acquisition, including the cost of acquisition. At the end of the financial period these investments are revalued and unrealized gains or losses arising from revaluation are recognized at fair value through equity under fair value reserve. When such investments are derecognized or disposed of, the cumulative gain or loss recognized in equity is transferred to the consolidated statement of income.

3.3.3. Investments in sukuk held at cost

Comprise an investment in securities for which fair value cannot be determined at market prices or other appropriate methods. Such securities are recognized at cost less impairment, if any. Gains or losses from such investments are recognized in the consolidated statement of income upon disposal or impairment of such investments.

3.4 Deferred sales receivable

Deferred Sales receivable comprise Murabaha, Deferred Sales, Salam, Mugawala and Ijara.

3.4.1 Murabaha and Deferred Sales

Historical cost is the basis for the measurement and recognition of the assets acquired for the purpose of selling by Murabaha or Murabaha for the purchase ordered or Deferred Sales at the date of acquisition. Assets are measured at the expected cash value and the cost that was used to measure the asset at the time of acquisition is reduced by an impairment allowance that reflects the difference between the cost of acquisition and the expected net realizable value.

3.4.2 Salam

Salam transactions are recognized upon payment of capital is paid (in cash, or in kind) to the group's customer or put at their disposal. The capital is measured at the amount paid or at the fair value of the asset provided.

If the group's customer fails to deliver whole or part of the goods or if the goods are defective, the group recognizes an allowance for impairment.

3.4.3 Mugawala

Mugawala is recognized upon signing of the contract at the nominal value and revenue is recognized based on the percentage of the completion of the contract.

3-Summary of significant accounting policies (continued)

3.5 Investment in Mudaraba and Musharaka

3.5.1 Mudaraba

Mudaraba investments are stated at the end of the period at the amount paid or put at the disposal of the Mudarib. This amount is reduced by the portion recovered from the Mudaraba capital and any provision for impairment, if any.

3.5.2. Musharaka

Musharaka investments are measured in the Consolidated statement of financial position at the historical cost less any liquidation and any provision for investment losses, if any.

3.6 Other investments

Other investments are recognized at cost less any permanent impairment, if any.

3.7 Investment property

Investment property comprise properties that are held either to earn rental income and / or for capital appreciation (including properties under construction for such purpose). The initial recognition is carried at cost and subsequently measured at fair value.

The fair value of the investment properties is determined by valuers with appropriate and recognized professional qualifications, good experience in property valuation. Also, they should consider the ability to generate economic benefits from the best use of such property.

The change in fair value is included in the fair value reserve within equity, and the recognition of the asset is ceased when it is derecognised or when it is permanently withdrawn from use and no future economic benefits are expected after disposal. Any gain or loss arising from the derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the consolidated statement of income in the period in which the recognition of the asset ceases.

Transfers are made to investment properties only when there has been a change in use evidenced by the end of the occupancy of the property by the owner, the commencement of an operating lease to another party or the completion of the construction or development work.

3.8 Other assets

Other assets are measured at cost net of allowance for doubtful debt if any. Allowance for doubtful debt is estimated when collection of the asset is not probable. Bad debts are written off when collection becomes not possible.

3-Summary of significant accounting policies (continued)

3.9 Intangible assets (except for goodwill)

Intangible assets are measured at historical cost less accumulated amortization and impairment, if any.

Intangible assets are amortized on straight line basis over the useful life of the assets.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Any impairment losses are recognized in the income statement.

3.10 Goodwill

Goodwill arising on the acquisition of a business combination is initially measured at historical cost, which represents the excess of the cost of acquisition over the net fair value of the identifiable assets and liabilities acquired. Following initial recognition, goodwill is measured at cost less any impairment loss. Goodwill is reviewed for the purpose of determining impairment annually or more frequently if events or changes in circumstances indicate a potential for impairment.

3.11 Property and Equipment

Property and Equipment are measured at cost less accumulated depreciation and impairment loss, if any.

Land and buildings have been revaluated are reported in the consolidated Statement of Financial Position at fair value less accumulated depreciation and any permanent impairment loss at the date of revaluation. Revaluation is carried out periodically to ensure that the carrying amounts of land and buildings do not differ significantly from their fair values. (See note 14).

Property and equipment are depreciated on the straight-line basis over their useful lives taking in to consideration the rates determined by the Tax Chamber authorities as follows:

Building	15 - 40 years
Furniture and equipment	3 – 10 years
Vehicles	6 – 7 years

The carrying amounts of the Property and Equipment are reviewed at each reporting date to determine if there is any indication or objective evidence of impairment. If the recoverable values are less than the carrying values, then the difference is charged to the income statement.

3- Summary of significant accounting policies (continued)

3.12 Revenue Recognition from financing and investing activities

3.12.1 Profit or losses from Murabaha, Deferred sales and Mugawala

Profits and losses from murabaha and deferred sales are initially recognized as deferred Profit distributed over future applicable periods based on the outstanding balance where profit are allocated between financial periods within the contract term using the effective rate of return method.

Mugawala profits from contracts beginning and ending in the same financial period are recognized on the basis of the final liquidation. Deferred income on Mugawala contracts carried at future financial periods is recognized on an accrual basis at a fixed rate of return, so that each financial period is allocated with its share of profits.

3.12.2 Profit or losses from Salam

The value of Salam at the end of the financial period is measured at the expected realizable cash value, and losses, if any are recognized in the income statement. When commodities are received, the difference between the value of the Salam commodity and the net selling price is recognized as gain or loss in the consolidated financial statements.

3.12.3 Profit or losses from Mudaraba

Mudaraba profits / losses are recognized in the income statement at the time of liquidation or to extent of profits being distributed or at declaration date or when such profits can reasonably be estimated. The losses are recognized by reducing the capital amount of Mudaraba.

3.12.4 Profit or losses from Musharaka

Profits and losses from Musharaka agreements liquidated within one financial period are recognized upon liquidation. As for Musharaka agreements that continue for more than one financial period, the group recognizes its full share of profit when realized upon final liquidation or partially to the limit of distributed profit. Losses are recognized by reducing the capital amount of Musharaka.

3.12.5 Contribution in financing portfolios

The income is recognized according to Mudaraba contract on accrual basis.

3.12.6 Profit from investment deposits with banks and financial institutions based on the Mudaraba contract is recognized on accrual basis.

3.12.7 Revenue from investment in Sukuk and financial securities held at cost is recognized on accrual basis.

3.12.8 The Bank recognizes its share of profit from investment in shares of companies, including unconsolidated subsidiary companies, when dividends are declared.

3.12.9 Income of banking services:

Income from banking services is recognized when related services are provided to the customer.

3-Summary of significant accounting policies (continued)

3.13 Provision for finance and investment losses

Provision for finance and investment losses is based on the assessment of collectability of each debt and in accordance with the directives of the Central Bank of Sudan and the group's policy. Movements in Provision for finance and investment losses are recognized in the income statement. General provision is recognized in the statement of changes in equity within the general banking risk reserve after approval from the Central Bank of Sudan.

3.14 Zakat

The group is subject to Zakat, which is a religious tax, in accordance with laws and regulations of the Chamber of Zakat in Sudan. The Chamber is a government agency entrusted with the collection and disbursement of Zakat. The Bank pays its Zakat obligation in full to the Chamber of Zakat.

3.15 Taxation

The group is subject to income tax as prescribed by the Chamber of taxation which is 30% of taxable income. Zakat is an allowable deduction for tax purposes.

3.16 Return to unrestricted investment accounts holders

Profits are allocated between the unrestricted investment accounts holders and the share holders' equity according to the contribution of each of the two parties in the invested funds. The profits of these investment accounts are credited to the holders' accounts after the approval of the Sharia'a Supervisory Board.

Profit distribution rates, generally, range as follows:

- 60% - 70% for a range of saving accounts.
- 70% on the average for investment accounts.

Investment profits subject to distribution are charged with cost and expenses specifically related to these investments.

3.17 Impairment and non- collectability of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, an impairment loss is recognized in the income statement.

3.18 End of Service Benefits.

The bank provides for post service benefits payable to staff using the agreement with the employees' union as the basis for calculations and in accordance with the Sudanese social security regulations.

3-Summary of significant accounting policies (continued)

3.19 Liabilities

Liabilities are recognized for the amounts payable in future for goods or services delivered, whether invoices are issued by suppliers or not.

4. Sharia'a Supervisory Board

The group's business activities are subject to the supervision of a Sharia'a Supervisory Board appointed by the general assembly. The board has the power to review all activities of the bank to ensure compliance with the Sharia'a regulations. The Sharia'a Board also prepares a report at the end of the financial year that is submitted to the general assembly.

Bank of Khartoum**Notes to the Consolidated Financial Statements****For the year ended December 31, 2019**

		2019	2018
5- <u>Cash and balances with banks and financial institutions</u>	<u>Note</u>	<u>SDG'000</u>	<u>SDG'000</u>
Cash in hand and ATMs - Local Currency		1,484,046	93,532
Cash in hand and ATMs - Foreign Currency		1,127,176	643,480
Current Accounts with the Central Banks - Local Currency		24,190,072	7,867,352
Current Accounts with the Central Banks - Foreign Currency		1,991,808	1,850,039
Central Bank of Sudan window Account	5/1	6,371,930	15,510,507
Central Bank of Sudan Receivables	5/2	3,008,214	2,045,075
Cash with foreign correspondent banks		3,121,675	3,532,124
Subtotal		41,294,921	31,542,109
Local Cash reserve with the Central Bank of Sudan	5/3	10,867,548	3,430,250
Foreign Cash reserve with the Central Bank of Sudan	5/3	1,698,895	1,942,610
Cash reserve with the Central Bank of Emirates		832,625	370,748
		54,693,989	37,285,717

5/1- Central Bank of Sudan window Account

Represent balances due to the Bank against letters of credit (issued for provision of Wheat, petroleum products and Hajj service). It depends on pledges to pay by the Central Bank of Sudan. The Central Bank of Sudan pays through its share of the Bank's purchases of foreign currency.

5/2- Central Bank of Sudan Receivables

Receivables from letters of guarantee issued by Central Bank of Sudan.

5/3- Cash reserve with the Central Bank of Sudan

Represent balances of the reserve held by the Central Bank of Sudan.

	2019	2018
6- <u>Investment accounts with banks and financial institutions</u>	<u>SDG'000</u>	<u>SDG'000</u>
Investment accounts with local banks and financial institutions	4,039,216	474,231
Investment accounts with foreign banks and financial institutions	225,552	380,820
	4,264,768	855,051

Represent investment accounts with banks and financial institutions that are invested on the basis of unrestricted Mudaraba in accordance with the requirements of Islamic Sharia.

Bank of Khartoum**Notes to the Consolidated Financial Statements****For the year ended December 31, 2019**

		2019	2018
7- <u>Deferred Sales Receivables and Other Finance</u>	<u>Note</u>	<u>SDG'000</u>	<u>SDG'000</u>
Murabaha		17,490,201	19,871,145
Deferred sales		2,921,494	682,076
Salam		98,123	98,362
Mugawala		9,306,822	12,892,115
Ijara		8,751	6,324
		29,825,391	33,550,022
Less: Deferred profit	7/3	(5,139,000)	(5,556,083)
		24,686,391	27,993,939
Less: Provision for finance & investment losses, net	7/1	(1,548,304)	(783,742)
Deferred Sales receivables, net	7/3	23,138,087	27,210,197
<u>Other Finance</u>			
Defaulted letters of guarantee		13,856	14,337
Defaulted letters of credit		50,282	62,349
		64,138	76,686
Provision for other finance	7/1	(64,138)	(76,686)
Other Finance, net		-	-
Deferred Sales Receivables and other Finance, net	7/3	23,138,087	27,210,197

Bank of Khartoum

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

7/1- Provision for finance & investments losses

	Other Provision	General Provision for Sales receivables	Provision for other finance	Provision for Mudaraba and Musharaka	Total
	SDG'000	SDG'000	SDG'000	'SDG'000	SDG'000
2019					
Balance at beginning of the year	–	783,742	76,686	6,588	867,016
Provision recognized during the year	20,988	850,577	–	11,908	883,473
Foreign currencies translation differences *	–	(78,044)	(6,000)	–	(84,044)
Charged to income statement	20,988	772,533	(6,000)	11,908	799,429
Bad debts written - off during the year	(20,988)	(7,972)	(6,548)	–	(35,508)
At December 31, 2019	–	1,548,303	64,138	18,496	1,630,937
		Note 7	Note 7	Note 9	

* The above balance represents decrease in the provision for doubtful debts in foreign currencies due to changes in exchange rates.

	Other Provision	General Provision for Sales receivables	Provision for other finance	Provision for Mudaraba and Musharaka	Total
	SDG'000	SDG'000	SDG'000	'SDG'000	SDG'000
2018					
Balance at beginning of the year	–	215,576	76,138	475	292,189
Provision recognized during the year	–	608,183	42,323	6,113	656,619
Bad debts write off during the year	–	107	–	–	107
Bad debts written - off during the year	–	(40,124)	(41,775)	–	(81,899)
At December 31, 2018	–	783,742	76,686	6,588	867,016
		Note 7	Note 7	Note 9	

The attached notes from 1 to 37 form an integral part of these financial statements.

Bank of Khartoum

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

7/2- Provision for finance & investment losses, net

	provision for Impairment of share value	provision for Impairment of share value (White Nile Sugar Company)	Impairment of Inventory available for sale (salam)	Impairment of other assets	Total
	SDG'000	SDG'000	'SDG'000	'SDG'000	SDG'000
<u>2019</u>					
Balance at beginning of the year	502	158,586	67,821	398,306	625,215
Provision recognized during the year	–	–	–	398,306	398,306
At December 31, 2019	502	158,586	67,821	796,612	1,023,521
	Note 8/9/3	Note 8/9/1	Note 11/1		
	provision for Impairment of share value	provision for Impairment of share value (White Nile Sugar Company)	Impairment of Inventory available for sale (salam)	Impairment of other assets	Total
<u>2018</u>					
Balance at beginning of the year	502	–	–	–	502
Provision recognized during the year	–	158,586	67,821	398,306	624,713
At December 31, 2018	502	158,586	67,821	398,306	625,215
	Note 8/9/3	Note 8/9/1	Note 11/1		

Bank of Khartoum
Notes to the Consolidated Financial Statements
For the year ended December 31, 2019
7/3 Deferred sales receivables by sector

	Murabaha SDG'000	Deferred sales SDG'000	Salam SDG'000	Mugawala SDG'000	Other SDG'000	Total SDG'000
2019						
Governments and quasi-government	1,574,427	–	82,976	7,575,314		9,232,716
Non-Banking financial institutions	–	–	–	654,458	–	654,458
Agricultural	1,439,522	–	3,508	425,679	–	1,868,709
Industrial	5,572,936	84,666	–	174,736	–	5,832,337
Transportation	262,932	329,974	–	–	103	593,009
Export & Import	2,911,250	296,923	–	8,390	–	3,216,563
Local Trade	920,080	–	–	–	–	920,080
Real Estate (Building & construction)	91,798	1,963,091	670	318,106	–	2,373,665
Other	4,704,233	246,841	10,969	163,163	8,648	5,133,854
Total Deferred sales receivable	17,477,177	2,921,494	98,123	9,319,846	8,751	29,825,391
Less: Deferred Profit	(2,157,804)	(1,149,168)	–	(1,830,752)	(1,276)	(5,139,000)
Less: Provision for finance & investment losses	(528,167)	(5,236)	(98,123)	(916,577)	(200)	(1,548,304)
	14,791,206	1,767,090	(0)	6,572,517	7,274	23,138,087
2018						
Governments and quasi-government	1,365,464	–	82,976	11,505,887	–	12,954,327
Non-Banking financial institutions	–	–	–	687,936	–	687,936
Agricultural	785,373	–	15,386	80,588	–	881,347
Industrial	6,166,880	–	–	170,344	–	6,337,224
Transportation	130,482	155,902	–	–	285	286,669
Export & Import	3,149,033	275,791	–	–	–	3,424,824
Local Trade	3,404,975	6,945	–	294,153	–	3,706,073
Real Estate (Building & construction)	632,385	68,722	–	87,938	–	789,045
Other	6,281,628	174,716	–	65,269	6,039	6,527,652
Total Deferred sales receivable	21,916,220	682,076	98,362	12,892,115	6,324	35,595,097
Less: Deferred Profit	(2,300,750)	(107,514)	–	(3,146,925)	(894)	(5,556,083)
Less: Provision for finance & investment losses	(122,524)	(3,781)	(23,067)	(634,052)	(318)	(783,742)
	19,492,946	570,781	75,295	9,111,138	5,112	29,255,272

The attached notes from 1 to 37 form an integral part of these financial statements.

Bank of Khartoum**Notes to the Consolidated Financial Statements****For the year ended December 31, 2019****8- Investment in Sukuk and financial securities**

Comprise the following equity - type instruments :

		2019	2018
	<u>Note</u>	<u>SDG'000</u>	<u>SDG'000</u>
Securities at fair value through income statement:			
Shahama certificates	8/1	3,812,331	3,128,513
Securities at fair value through equity:			
Sukuk of Mico Ijarah Investment fund	8/2	20,200	20,200
Liquidity mangement fund	8/3	1,124,523	181,972
		<u>1,144,723</u>	<u>202,172</u>
Securities carried at cost:			
Ijarah certificates of the Central Bank of Sudan assets (Shihab 2)	8/4	450,000	–
Ijarah certificates of the asset of the Central Bank of Sudan (Sudatel)	8/5	30,000	–
Musharaka certificates of Khartoum Refinery (Shama)	8/6	395	395
Ijarah certificates of Sudanese Electricity Distribution Company (Shasha)	8/7	114,113	114,113
		<u>594,508</u>	<u>114,508</u>
Shares in companies listed on the stock market	8/8	44,001	30,263
Shares in companies unlisted on the stock market	8/9	88,100	88,085
Total of investments in shares - Self finance		<u>132,101</u>	<u>118,348</u>
Total of Investment in Sukuk and financial securities		<u><u>5,683,663</u></u>	<u><u>3,563,541</u></u>

8/1- Shahama certificates

They represent government certificates (Shahama), Which are issued by the Ministry of Finance on behalf of the Government of Sudan and are marketed through Sudan Financial Services Company according to Musharaka contract, which is traded on Khartoum Stock Exchange.

8/2- Sukuk of Mico Ijarah Investment fund

Mico Ijarah Investment Fund is a closed medium-term investment fund (closed term and fixed capital) based on Securitization (Taskiek) of productive assets under the oprating Ijara mode . It is not listed on Khartoum Stock Exchange and is carried at cost in the financial statements.

8/3- Liquidity mangement fund

Comprises Sukuk issued by the Liquidity Fund, which was founded pursuant to the instructions of the Central Bank of Sudan, its an open term fund with a variable capital determined in coordination with the Central Bank of Sudan and the Board of Directors of the Fund. These Sukuk are traded between banks working in Sudan and the Fund. The Fund aims to develop the management of interbank liquidity and stimulate the interbank market.

Bank of Khartoum**Notes to the Consolidated Financial Statements****For the year ended December 31, 2019****8- Investment in Sukuk and financial securities (continued)****8/4- Ijarah certificates of Central Bank Sudan assets (Shihab 2)**

Ijarah certificates of assets of the Central Bank of Sudan (Shahab 2) represent an investment in a medium term investment fund issued by the Sudanese Financial Services Company. These certificates are financial instruments invested in acquiring the assets of the Bank of Sudan which were leased back under operating Ijarah. Investment in this fund's certificates is exclusively for banks operating in Sudan. Income from rent is distributed monthly.

8/5- Ijarah certificates of the asset of the Central Bank of Sudan (Sudatel)

Ijarah certificates of the headoffice of Sudatel company for a period of five years, starting from July 2019, and it will be listed on Khartoum Stock Exchange. Income from the rent will be distributed monthly.

8/6- Musharaka certificates of Khartoum Refinery (Shama)

Ijarah certificates for lease of assets of Khartoum Petroleum Refinery which are traded on Khartoum Stock Exchange. Profits are distributed every 3 months. The term of investment is 7 years starting from the date of issue October 2010. The certificates were renewed in October 2018.

8/7- Ijarah certificates of Sudanese Electricity Distribution Company (Shasha)

Ijarah certificates of the Sudanese Electricity Distribution Company assets (SHASHA), represent an investment in a medium term investment fund issued by the Sudanese Financial Services Company. These certificates are financial instruments that are invested in acquiring the assets of Sudanese Company for the Distribution of Electricity which were then leased back to the Ministry of Finance. Investment in this fund certificates is offered to individuals, companies and financial institutions. Income is distributed annually.

8/8- Shares in companies listed on Khartoum Stock Exchange

Represents contributions in shares of the following companies listed on Khartoum Stock Exchange:

		2019	2018
	%	SDG'000	SDG'000
National Petroleum Company	4.6%	19,663	8,993
Tawuniya Insurance Company	25.1%	2,680	2,138
Ivory Bank	10.2%	612	612
Al Tadamon Islamic Bank	0.00%	35	29
Al Nile Bank for Commerce and Development	0.00%	4	3
Animal Resources Bank	0.00%	1	1
Faisal Islamic Bank	0.13%	9,177	9,177
Sudanese Free Zones and Markets Company	0.04%	11,703	9,185
National Labor Bank	0.03%	39	33
Gum Arabic Company	1.1%	88	92
		44,001	30,263

Bank of Khartoum**Notes to the Consolidated Financial Statements****For the year ended December 31, 2019****8– Investment in Sukuk and financial securities (continued)****8/9- Shares in unlisted companies on Khartoum Stock Exchange:**

Represents contributions in share of the following companies unlisted on Khartoum Stock Exchange:

			2019	2018
		%	<u>SDG'000</u>	<u>SDG'000</u>
White Nile Sugar Company	(8/9/1)	5.62%	1	1
Kenana Sugar Company		1%	12,000	12,000
Alnakheel for Food industry Ltd. Co.		25%	61,741	61,741
Islamic International Rating Agency		1.5%	11,278	11,920
Microfinance Guarantee Agency (TAYSEER)	(8/9/2)	2.6%	1,316	658
Sudan Academy for Banking & Financial Sciences		9%	932	932
Electronic Banking Services Co.,Ltd.		1%	217	218
Wafra Modern Storage co.,		11%	13	13
Sudan Rural Development Co. Ltd.		7.5%	476	476
International Medical Services Company		6.8%	125	125
Other investments	(8/9/3)		1	1
			<u>88,100</u>	<u>88,085</u>

			2019	2018
			<u>SDG'000</u>	<u>SDG'000</u>
(8/9/1) Shares in White Nile Sugar Company			158,586	158,586
Less:				
provision for Impairment	7/2		(158,585)	(158,585)
Shares value, net			<u>1</u>	<u>1</u>

(8/9/2) Microfinance Guarantee Agency (TAYSEER)

Microfinance Guarantee Agency (TAYSEER), has been established to support the country's horizontal spread and expansion of microfinance services. The contribution of banks amounts to 100 million payable on four equal installments, the value of each installment is 25 million. The first installment was distributed to the banks at 658 thousand pounds for each bank, constituting 2.6% of the capital

			2019	2018
			<u>SDG'000</u>	<u>SDG'000</u>
(8/9/3) Other investments			503	503
Shares of other companies			503	503
Less:				
provision for Impairment in share value	7/2		(502)	(502)
Shares in other companies, net			<u>1</u>	<u>1</u>

Bank of Khartoum

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

		2019	2018
		SDG'000	SDG'000
9- <u>Investment in Mudaraba and Musharaka</u>	<u>Note</u>		
Mudaraba		156,656	411,123
Musharaka		550,555	149
		<u>707,211</u>	<u>411,272</u>
Provision for finance & investment losses	7/1	(18,496)	(6,588)
Investment in Mudaraba and Musharaka, net		<u><u>688,715</u></u>	<u><u>404,684</u></u>
		2019	2018
		SDG'000	SDG'000
10- <u>Investment property</u>			
Balance at beginning of the year		2,819,164	694,199
Reclassified to property and equipment		(9,082)	-
Additions		-	798
Changes in fair value		-	2,124,167
Balance at end of the year		<u><u>2,810,082</u></u>	<u><u>2,819,164</u></u>
		2019	2018
		SDG'000	SDG'000
11- <u>Assets available for sale</u>	<u>Note</u>		
Assets owned by the group *		20,898	20,898
Assets acquired		241,238	241,238
Inventory of crops for sale	11/1	137,143	6,078
		<u><u>399,279</u></u>	<u><u>268,214</u></u>
11/1- <u>Inventory available for sale</u>			
Inventory of products offered for sale		204,963	73,898
Less:			
Impairment	7/2	(67,820)	(67,820)
		<u><u>137,143</u></u>	<u><u>6,078</u></u>

* Represent different lands and assets acquired by the group from clients in settlement of their obligations towards the group and are offered for sale.

Bank of Khartoum

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

		2019	2018
12- <u>Other assets</u>	<u>Note</u>	<u>SDG'000</u>	<u>SDG'000</u>
Staff loans		153,392	54,070
Prepaid expenses	12/1	261,326	233,904
Accrued income	12/2	555,641	425,472
Mobile telephone payment service	12/3	75,120	50,604
Debtors	12/4	23,992	40,060
Trade receivables	12/5	397,265	598,673
Receivable from the government	12/6	10,911	26,313
Stationery and other stocks		247,808	146,665
Foreign Exchange Suspense Account	12/7	5,035,180	3,633,129
Deferred Tax Assets	12/8	413,651	413,291
Accounts under settlement, net	12/9	409,474	1,511,107
		<u>7,583,760</u>	<u>7,133,288</u>

12/1- Prepaid expenses

Represent lease payments for branches and ATM locations paid in advance which will be amortized to expense on accrual basis according to maturity dates.

12/2- Accrued income

Represent accrued (uncollected) profits from investment in securities (Shahama + Sarh)

12/3- Mobile telephone payment service

This represent the portion paid by the Bank to purchase balances within the Bank's electronic payment system.

12/4- Debtors

Represent deferred amounts in favor of the Bank against the sale of assets owned by the Bank. The amounts shall be repaid on due dates in accordance with the agreements concluded.

12/5- Trade receivables

Represent receivable accounts in the subsidiaries' records.

12/6- Receivable from the government

Represent claims on the government arising from the purchase of Bank of Khartoum, which are settled periodically.

12/7- Foreign Exchange Suspense Account

These represent temporary FX differences arising from foreign currencies utilized to import strategic commodities and financing Hajj and Omrah operations upon requirement from and in favor of government authorities.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

12- Other assets (continued)**12/8- Deferred Tax Assets**

Represent a temporary tax differences between accounting profit and taxable profit for items of expenses and provisions that are not taxable during the year ended, which are added or deducted at the end of each year.

	Tax provision	Deferred Tax Assets	Provision Expense
	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>
Balance at Jan 1, 2019	(368,235)	413,291	-
Taxes calculated during the year	(211,283)	-	211,283
Utilized during the year	309,242	-	-
Transferred to deferred tax assets	-	360	-
Balance at December 31, 2019	<u>(270,276)</u>	<u>413,651</u>	<u>211,283</u>
	Note 18	Note 12	

		2019	2018
		<u>SDG'000</u>	<u>SDG'000</u>
12/9- Accounts under settlement, net	Note	1,214,349	1,918,591
Accounts under settlement, net			
Less: Impairment in the value of other assets	7//2	(804,875)	(407,484)
		<u>409,474</u>	<u>1,511,107</u>

* This balance includes amounts under settlement and amounts covered by lawsuits filed by the Bank against third parties who failed to meet their contractual obligations towards the Bank. Impairment provision has been recognized based on merits and legal status of each case individually at December 31, 2019.

13- Intangible assets, net

	Computer Software	Goodwill	Total
	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>
Details as follows:			
January 1, 2019	117,326	182,605	299,931
Additions during the year	17,411	-	17,411
Amortization charge for the year	(24,873)	-	(24,873)
December 31, 2019	<u>109,864</u>	<u>182,605</u>	<u>292,469</u>
January 1, 2018	127,404	182,605	310,009
Additions during the year	18,954	-	18,954
Amortization charge for the year	(29,032)	-	(29,032)
December 31, 2018	<u>117,326</u>	<u>182,605</u>	<u>299,931</u>

Bank of Khartoum**Notes to the Consolidated Financial Statements****For the year ended December 31, 2019****14- Property ,plant and equipment, net**

	Land and Buildings	Furniture and Equipment	Motor Vehicles	Capital Work in Progress	Total
	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>
<u>Cost:</u>					
At January 1, 2019	894,758	1,904,134	105,717	901,635	3,806,244
Additions	2,526	227,850	3,932	831,606	1,065,913
Disposals	(13,835)	(43,599)	(1,726)	-	(59,160)
Transfer from capital work in progress	1,800	301,518	-	(303,318)	-
Reclassified to other receivables balances (note 12/9)	-	-	-	-	-
As at December 31, 2019	<u>885,249</u>	<u>2,389,902</u>	<u>107,923</u>	<u>1,429,923</u>	<u>4,812,997</u>
<u>Depreciation:</u>					
At January 1, 2019	27,154	714,470	37,822	-	779,446
Depreciation charge for the year	3,294	194,704	14,343	-	212,341
Disposals	-	(6,082)	(762)	-	(6,844)
As at December 31, 2019	<u>30,448</u>	<u>903,092</u>	<u>51,403</u>	<u>-</u>	<u>984,943</u>
<u>Net book value</u>					
As at December 31, 2019	<u>854,801</u>	<u>1,486,810</u>	<u>56,520</u>	<u>1,429,923</u>	<u>3,828,054</u>

* Additions represent expenditure on projects at branches, ATMs and other which is capitalized when the project is finalized and the asset is put to intended use.

Bank of Khartoum**Notes to the Consolidated Financial Statements****For the year ended December 31, 2019****14- Property ,plant and equipment, net (continued)**

	Land and Buildings	Furniture and Equipment	Motor Vehicles	Capital Work in Progress	Total
	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>
<u>Cost:</u>					
At January 1, 2018	707,294	1,347,272	69,296	399,731	2,523,593
Additions	174,996	289,388	10,330	958,098	1,432,812
Dsiposals	-	(698)	(3,073)	-	(3,771)
Transfer from capital work in progress *	12,468	268,172	29,164	(309,804)	-
Reclassified to other receivables balances (note 12/9)	-	-	-	(146,390)	(146,390)
As at December 31, 2018	<u>894,758</u>	<u>1,904,134</u>	<u>105,717</u>	<u>901,635</u>	<u>3,806,244</u>
<u>Depreciation:</u>					
At January 1, 2018	24,186	578,222	27,344	-	629,752
Depreciation charge for the year	2,968	136,350	12,107	-	151,425
Disposals	-	(102)	(1,629)	-	(1,731)
As at December 31, 2018	<u>27,154</u>	<u>714,470</u>	<u>37,822</u>	<u>-</u>	<u>779,446</u>
<u>Net book value</u>					
As at December 31, 2018	<u>867,604</u>	<u>1,189,664</u>	<u>67,895</u>	<u>901,635</u>	<u>3,026,798</u>

* Additions represent expenditure on projects at branches, ATMs and other which is capitalized when the project is finalized and the asset is put to intended use.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

	2019	2018
15- <u>Current accounts</u>	<u>SDG'000</u>	<u>SDG'000</u>
Current accounts - local	26,167,143	19,317,314
Current accounts - foreign	12,274,384	10,010,765
	38,441,527	29,328,079

	2019	2018
16- <u>Margins on letters of credit & guarantee</u>	<u>SDG'000</u>	<u>SDG'000</u>
Cash margins against letters of credit	433,870	5,565,980
Cash margins against letters of guarantee	286,305	321,162
	720,175	5,887,142

		2019	2018
17- <u>Other liabilities</u>	<u>Note</u>	<u>SDG'000</u>	<u>SDG'000</u>
Accrued liabilities	17/1	1,962,658	1,069,232
Transfers		21,519	21,589
Accrued expenses		497,851	436,537
Balances under custody	17/2	213,092	264,590
Accrued liabilities to insurance companies		11,718	9,544
Accrued liabilities to Dura portfolio		40	40
Creditors on subsidiaries records	17/3	6,750	21,599
Other liabilities	17/4	517,612	468,058
		3,231,241	2,291,189

17/1- Accrued liabilities

Include amount of SDG 891,068 thousand representing cashier's cheques drawn on account of clients and have not yet been deducted from accounts.

17/2- Balances under custody

These include SDG 63 Million representing prior years shareholders profits under distribution.

17/3- Creditors on subsidiaries records

Represent Creditors balances on Subsidiaries records.

17/4- Other liabilities

Comprise settlement of mobile electronic payment accounts, debit cards, settlement of accounts of the national switch and points of sale in addition to economic housing portfolio, the people welfare fund, shortage and surpluses in ATMs and safes.

Bank of Khartoum

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

18- Provisions

	31 December 2018	Additions during the year	Used during the year	Foreign currency difference	31 December 2019
	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>
Zakat provision	54,603	29,816	(39,045)	-	45,374
Provision for end of service benefits	164,169	31,095	(86,703)	8,567	117,129
Provision for court cases	520	-	-	-	520
Tax Provision (note 12/8)	368,235	211,283	(309,242)	-	270,276
	587,527	272,194	(434,990)	8,567	433,299

	2019 <u>SDG'000</u>	2018 <u>SDG'000</u>
19- Equity of unrestricted investment accounts holders		
Savings accounts- local	42,659,560	22,220,075
Savings accounts- foreign	1,793,100	1,553,966
Customer investment accounts	8,546,105	12,313,811
Investment accounts - Central Bank of Sudan	170,000	245,000
Investment accounts - Other Banks	825,950	2,240,427
	53,994,715	38,573,279
Share of profit	1,011,460	698,269
Undistributed profit from prior years	-	13,237
	55,006,175	39,284,785

	2019 <u>SDG'000</u>	2018 <u>SDG'000</u>
20- Share capital		
Authorized share capital	2,000,000	2,000,000
Paid up share capital	1,016,645	1,016,645

Paid up share capital is divided into 770,185,543 ordinary shares of SDG 1.32 each.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

20- Share capital (continued)

	2019	2018
<u>Shareholders' structure</u>	<u>%</u>	<u>%</u>
Dubai Islamic Bank	29.49%	29.49%
Mr. Fadl Mohammed Khair Mohammed	22.76%	22.76%
The Islamic Development Bank	4.41%	4.41%
Abu Dhabi Islamic Bank	3.21%	3.21%
Mr. Salah bin Rashid bin Abdulrahman Al Rashed	2.47%	2.47%
The Sharjah Islamic Bank	2.22%	2.22%
Shares less than 2%	35.44%	35.44%
	<u>%100.00</u>	<u>% 100.00</u>

	2019	2018
21- <u>Reserves</u>	<u>SDG'000</u>	<u>SDG'000</u>
Represents the following reserves:		
Statutory reserve	277,400	267,886
General banking risk reserve	253,382	442,371
Fair value reserve	76,196	57,546
Fixed assets revaluation reserve	1,906,079	1,892,420
General reserve	377,318	363,056
Foregin currency translation reserve	(152,726)	(157,148)
Foreign currency revaluation reserve	(87,887)	230,421
	<u>2,649,761</u>	<u>3,096,552</u>

		2019	2018
		<u>SDG'000</u>	<u>SDG'000</u>
22- <u>Income from Deferred sales receivables</u>			
Murabaha income		2,125,880	1,392,160
Mugawala income		1,610,353	1,058,889
Deferred sales income		114,715	101,054
Ijara income		1,424	1,008
		<u>3,852,372</u>	<u>2,553,111</u>
		2019	2018
	<u>Note</u>	<u>SDG'000</u>	<u>SDG'000</u>
23- <u>Income from investments</u>			
Income from Investments with banks and financial institutions	23/1	90,488	6,603
Income from Investment in Sukuk and financial securities	23/2	791,816	686,749
Income from Investment in Mudaraba and Musharaka	23/3	253,647	74,884
		<u>1,135,951</u>	<u>768,236</u>
		2019	2018
		<u>SDG'000</u>	<u>SDG'000</u>
23/1- <u>Income from investment accounts with banks and financial institutions</u>			
Profit from investment accounts with Banks		90,488	6,603
		<u>90,488</u>	<u>6,603</u>
		2019	2018
		<u>SDG'000</u>	<u>SDG'000</u>
23/2- <u>Income from investment in Sukuk and financial securities</u>			
Shahama revenue		608,083	512,345
Shihab revenue		34,200	132,050
Shama revenue		2,715	118
Sarh revenue		-	15,120
Sukuk of Ijarah Investment Fund		3,200	2,558
Investment portfolio return		93,359	15,347
Liquidity management fund return		50,259	9,211
		<u>791,816</u>	<u>686,749</u>

23- Income from investments(continued)

	2019	2018
23/3- <u>Income from investment in Mudaraba and Musharaka</u>	<u>SDG'000</u>	<u>SDG'000</u>
Mudaraba income	247,529	64,834
Musharaka income	6,118	10,050
	<u>253,647</u>	<u>74,884</u>

	2019	2018
24- <u>Return to unrestricted investment account holders</u>	<u>SDG'000</u>	<u>SDG'000</u>
Unrestricted investment account holders share of profit before deduction of the Bank's fee as Mudarib	2,222,478	1,462,928
Bank's fee as Mudarib	(612,868)	(450,008)
Unrestricted share of investment account holders in profit after deduction of the Bank's fee as Mudarib	1,609,610	1,012,920
Support provided by the Bank's shareholders from their share as Mudarib	10,715	207,427
Share of unrestricted investment account holders after the shareholders' support	<u>1,620,325</u>	<u>1,220,347</u>

Profit distribution rates:

	2019	2018
Savings accounts	5.09%- 6.27%	6.08% - 8.13%
Annual deposit accounts - Sudanese pound	15.25%	15.18%
Annual deposit accounts - Foreign currency	1.84%	0.80%

	2019	2018
	<u>SDG'000</u>	<u>SDG'000</u>
25- <u>Income from banking services</u>		
Commissions on letters of credit	794,538	798,104
Commissions from communications	299,896	300,556
Commissions on letters of guarantee	17,385	199,481
Cash management fees	80,729	94,196
Commissions on transfers	95,665	80,443
Commission from current accounts	16,929	8,191
Commission from electronic channels	4,663	1,946
Communication commissions	772	1,209
Commission from insurance companies and agencies	1,020	628
Commission from cheque collections	9	26
	<u>1,311,606</u>	<u>1,484,780</u>

	2019	2018
	<u>SDG'000</u>	<u>SDG'000</u>
26- <u>Other income</u>		
Rental income received	90,371	51,535
Insurance and storage fees	1,055	1,108
Revenue from disposal of fixed assets	25,754	14,470
Dividends on investment in shares of companies	1,503	1,362
Miscellaneous income	248,173	50,225
	<u>366,856</u>	<u>118,700</u>

		2019	2018
	<u>Note</u>	<u>SDG'000</u>	<u>SDG'000</u>
27- <u>Staff costs</u>			
Salaries and wages		820,352	558,890
Overtime		19,450	16,977
Travelling		66,319	31,084
Medical care		58,324	33,155
Staff bonus		468,247	308,214
Social insurance		71,229	42,304
Hospitality		29,225	36,124
End of service benefits	18	31,095	17,776
Training		21,279	27,885
		<u>1,585,519</u>	<u>1,072,409</u>

	2019	2018
	SDG'000	SDG'000
28- General and administrative expenses		
Rent	126,031	83,356
Insurance	44,545	21,462
Government dues	19,938	18,623
Electricity, water and fuel	37,230	31,507
Maintenance and cleaning	233,410	105,498
Services	109,544	77,690
Postage	3,660	2,008
Cash management expenses	4,834	14,172
Transportation expenses	40,981	29,728
Consulting and professional services	38,612	42,231
Legal fees	14,345	19,522
Board of Directors expenses	4,467	43
Board of Directors meetings allowance	25,160	35,177
Sharia Supervisory Board's expenses	357	1,764
Archive expenses	111	725
Printing & stationery	49,332	19,068
Newspapers & magazines	1,161	789
Communication & internet	201,119	127,446
Hospitality expenses	23,750	34,026
Marketing and advertising	126,818	106,017
Donations	8,160	11,283
Subscriptions	11,399	7,011
Electronic channels expenses	71,138	33,252
Deposit Security Fund fees	36,368	17,224
Operating losses	19,845	377
Miscellaneous expenses	156,960	123,767
Commission paid	16,031	28,459
Amortization & Depreciation	244,106	180,457
	1,669,412	1,172,682

Bank of Khartoum**Notes to the Consolidated Financial Statements****For the year ended December 31, 2019**

		2019	2018
29- Other Provision	Note	SDG'000	SDG'000
Impairment of other receivables balances	12/9	398,306	407,484
Impairment of Investment in White Nile Sugar Company	8/9/1	–	158,585
Impairment of crop stocks for sale (Salam)	11/1	–	67,820
		398,306	633,889

30- Earnings per share

Earnings per share is calculated by dividing the profit for the year attributable to the shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year (excluding bonus shares).

	2019	2018
	SDG'000	SDG'000
Net income for the year	35,992	1,529,087
Weighted average number of shares outstanding during the year	770,185,543	770,185,543
Earnings per share (Sudanese pound)	0.05	1.99

*The Bank has not issued any financial instruments that have an impact on the earnings per share when used, and therefore there is no need to calculate diluted earnings per share.

31- Contingent Liabilities

Contingent Liabilities at December 31, are as follows:

		2019	2018
		SDG'000	SDG'000
31/1- Contingent Liabilities related to financing			
Letters of credit		2,692,934	13,398,255
Letters of guarantee		570,771	1,238,313
Total		3,263,705	14,636,568
31/2 Contingent Liabilities not related to financing	Note		
Restricted investment accounts	32	1,767,812	181,592
Total Contingent Liabilities		5,031,517	14,818,159

32- Restricted investment accounts

The Bank manages restricted investment accounts on a fiduciary basis as a mudarib.

These transactions are regulated by the Central Bank of Sudan. The financial statements of these accounts and the assets related to them are not included in the consolidated financial statements.

The maximum risk exposure is limited to the Bank's share of profit as Mudarib in return for the management of the accounts. The Bank does not guarantee the account holders equities and liabilities other than operational risk represented by non-compliance with investment terms and restrictions.

The Bank manages an investment portfolio named "Economic Housing Portfolio" as the lead bank with a number of banks participating under Mudaraba contract. The balance of the portfolio at December 31, 2019 amounted SDG 127,812 thousand (2018: SDG 131,592 thousand).

The Bank also manages an investment deposit for the term of 365 days restricted to investment in financial securities through Sanabil for Financial Securities company (subsidiary). The balance at December 31, 2019 SDG 1,590 thousand (2018: nil). In addition, the Bank manages another deposit amounting SDG 50,000 thousand (2018: 50,000 thousand) restricted to investment through Irada Microfinance Company (subsidiary).

Changes in the restricted investment accounts above are shown in the consolidated Statement of Changes in Restricted Investments, which is part of the basic set of financial statements as per AAOIFI standards.

Assets that these funds are invested in as well as classification by sector at December 31, are as follows:

	2019	2018
a- <u>Assets invested in restricted investment accounts</u>	<u>SDG'000</u>	<u>SDG'000</u>
Mugawala	117,494	120,655
Salam	10,318	10,936
Restricted Mudaraba through subsidiaries	1,640,000	50,000
Total	1,767,812	181,592

b- Classification of restricted investment accounts holders by sector

Banks and financial institutions	1,767,812	181,592
	1,767,812	181,592

Bank of Khartoum**Notes to the Consolidated Financial Statements****For the year ended December 31, 2019****33- Related parties transactions**

Related parties comprise the major shareholders, members of the Board of Directors, entities controlled by them or under their joint control, associates, key management personnel and their first degree family members and relatives. The following table details the balances of related parties as at December 31, 2019.

December 2019					
Nature of the relationship	subsidiaries	Shareholders	Board of Directors	Senior Management	Total
- Items of the statement of financial position:	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>
Deferred sales receivables	63,370	55,627	-	-	118,997
Mudaraba and Musharaka	3,300,966	-	-	-	3,300,966
Staff finance	-	-	-	33,019	33,019
Total	3,364,336	55,627	-	33,019	3,452,982
Current accounts, deposits and insuranse	571,476	21,396	305,290	-	898,162
Credits and Guarantees	-	704	-	-	704
- Items of the income statement:					
Income from finance and investment	48,287	-	-	-	48,287
Board of Directors meetings allowance	-	-	(25,160)	-	(25,160)
Total	48,287	-	(25,160)	-	23,127

Bank of Khartoum**Notes to the Consolidated Financial Statements****For the year ended December 31, 2019****33- Related parties transactions (continued)**

December 2018

Nature of the relationship	subsidiaries	Shareholders	Board of Directors	Senior Management	Total
- Items of the statement of financial position:	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>
Deferred sales receivables	63,370	285,440	-	-	348,810
Mudaraba and Musharaka	2,774,674	-	-	-	2,774,674
Staff finance	-	-	-	6,301	6,301
Total	2,838,044	285,440	-	6,301	3,129,785
Current accounts, deposits and insuranse	197,525	-	-	547	198,072
Credits and Guarantees	5,101	767	-	-	5,868
- Items of the income statement:					
Income from finance and investment	72,758	-	-	-	72,758
Board of Directors meetings allowance	-	-	(21,375)	-	(21,375)
Total	72,758	-	(21,375)	-	51,383

34- Capital adequacy

The Bank monitors capital adequacy using the rates and weights set by the Central Bank of Sudan , the Islamic Financial Services Board and Basel Committee standards. These ratios measure capital adequacy by comparing eligible capital with financial position assets and liabilities by using weights to determine the weighted balances to reflect their relative risks.

	Eligible Capital ('SDG'000)		Capital adequacy ratio (%)	
	2019	2018	2019	2018
Core capital	2,789,239	2,107,847	15.05%	11.36%
Core and supplementary capital	3,626,397	3,080,245	19.56%	16.60%

The Central Bank of the Sudan Circular No. 6/2009 issued at March 11, 2009 requires all banks operating in the Sudan to maintain a Risk Weighted Asset Ratio (the 'Basel Ratio') at a minimum of 12% (Basel II : 8 %).

Tier 1 Capital comprises share capital and premium, statutory reserve and retained earnings at the year end, less prescribed deductions.

Tier 2 Capital comprises the elements of Tire1 in addition to fair value revaluation and a prescribed amount of eligible portfolio provisions less prescribed deductions.

Investments in non-financial institutions' equities are not deducted from the Bank's regulatory capital . This treatment is in conformity to Basel II and IFSB rules on eligible capital.

The Bank has implemented the capital adequacy standard issued by the Islamic Financial Services Board (IFSB) (which is in line with Basel II) as required by the Central Bank of Sudan. The Bank uses the standardized approach of Basel II, as stipulated by the IFSB standard and the Central Bank of Sudan to calculate the Risk Weighted Assets and required Regulatory Capital for Pillar 1 (including credit risk, market risk and operational risk). Quarterly prudential returns are submitted to the Central Bank of Sudan showing the Capital Adequacy Ratio.

	Risk weighted assets	
	2019	2018
	'SDG'000	'SDG'000
Credit risk	12,730,978	12,501,307
Market risk	6,478,333	8,357,439
Operational risk	4,128,450	2,914,878
Total pillar 1 - Risk Weighted Assets	23,337,762	23,773,625

Capital management objectives

The Bank's objectives of capital management, which is a more comprehensive concept than that described in the "Equity" in the statement of financial position:

- Compliance with capital adequacy requirements set by the Central Bank of Sudan;
- Maintain the Bank's ability to continue and increase returns to shareholders and provide necessary assurance on the going concern principle;
- Maintain a strong capital base to support the development of the Bank's business.

35- Financial Risk management

35/1- Introduction

The risk management process is important for the Bank's continued profitability and each individual within the Bank is responsible for managing risks related to their responsibilities.

The Bank is exposed to a variety of risks including:

Credit risk

Liquidity risk

Market risk

Operational risk

External independent risks such as changes in environment, technology, business, regulations and laws are monitored through the Bank's strategic planning process.

35/1/1- Risk Management Structure

The Board of Directors is responsible for the identification and control of risks through the Risk Management Committee of the Board and the Risk Department, as well as the responsibility of all relevant units and departments for independent risk management and control.

Board of Directors

The Board of Directors is responsible for developing the overall risk management framework as well as adopting risk management strategies, methods and policies.

The Risk Management Committee

The Risk Management Committee is formed by the Board of Directors and is generally responsible for the development of risk management strategies, mechanisms, policies and limits, as well as to provide assurance to the Board of Directors on the application of those strategies and policies. It is also responsible for managing core risks as well as managing and monitoring risk decisions.

Risk Management Department

The Risk Management Department is responsible for applying and following risk management procedures to ensure that risks remain within their acceptable limits as authorized by the Board of Directors and the Risk Management Committee. The department is responsible for ensuring compliance with all risk limits, monitoring risk exposures and implementing controls issued by the supervisory authorities (the Central Bank of Sudan). It is also responsible for recommending, approving credit facilities, managing credit portfolios and their risks, credit risk, market risk, operational risk and overall risk control.

Asset and Liability Management Committee

The Asset and Liability Management Committee is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the management of market risk and liquidity risk to which the Bank is exposed.

Internal Audit Department

The Group's risk management operations are reviewed periodically by the Internal Audit Department whose responsible for monitoring and reviewing the adequacy of the procedures and the extent of the Group's compliance. The Internal Audit Department discusses the results of all evaluations with management and reports on all findings and recommendations to the Audit Committee of the Board.

35/1/2- Risk assessment and reporting systems

The Bank measures risk using conventional and quantitative methods of credit risk, liquidity risk, market risk and operational risk. The Bank also applies stress testing procedures to measure and analyze the results of events expected to occur.

35- Financial Risk management (continued)

35/1- Introduction (continued)

35/1/2- Risk assessment and reporting systems (continued)

Risk exposures are monitored in accordance with periodic reports submitted to the Board of Directors that reflect the level of risk that the Bank can accept, with a greater focus on selected sectors.

The information collected from the relevant units is reviewed for analysis and identification of potential risks. This information is provided and explained to the Executive Management and Risk Management Committee of the Board of Directors. Specialized reports are submitted to the managers of the concerned departments and are presented on a regular basis commensurate with the fluctuations and events that may affect those risks. The report includes total exposure to credit risk, exceptions to limits, liquidity risk, operational loss and changes in other risks. A detailed report is prepared on a monthly basis on the business sector, customers and geographic risks that may occur. Senior management assesses on monthly basis the provision for financing portfolio and the capital adequacy ratio.

35/1/3- Risk mitigation

Within the overall risk management framework, the Group uses different methods to manage exposures arising from changes in credit risk, liquidity risk, market risk (including foreign currency risk and equity price risk) and operational risk.

The Group seeks to manage its exposure to credit risk through diversification of its financing and investment activities to avoid concentrations of unwarranted risks relating to individuals and groups of customers in specific business locations or segments. The Group relies on good assessment of the financing transaction and the customer benefiting from the finance as well as collaterals that are obtained in order to mitigate the credit risk that the Group is exposed to.

In order to mitigate liquidity risk, management has diversified its funding sources as well as managing assets through liquidity available at the Bank, taking into consideration maintaining an adequate balance of liquid assets (cash and cash equivalents).

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions with respect to movements and changes in foreign exchange rates, reference profit rates and equity prices.

In order to manage all other risks, the Group has formulated a detailed risk management framework for the identification and optimum use of resources to mitigate risks.

35/1/4- Risk concentrations

Concentrations arise when a number of different parties engage in similar activities or activities in the same geographical area or when they have similar economic characteristics making their ability to meet their contractual obligations directly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments that may affect a particular business segment or geographical region.

35/2- Credit Risk

In order to avoid excessive concentration of risks, as indicated in policies and procedures and in compliance with the regulations of the Central Bank of Sudan, the Group maintains diversified portfolios, and the concentration risk in a specific finance portfolio is monitored and managed accordingly

35- Financial Risk management (continued)

35/2- Credit Risk (continued)

Credit risk measurement

The Group assesses the probability of default of counterparties using different assessment tools: In the corporate sector, the analysis are based on historical data, customer reputation, business environment and sector as well as referring to a credit rating agency to obtain the customer's credit position in the banking sector; and assessment of their financial position using financial ratio analysis of the financial statements of the last three years according to the internally developed analysis form and estimation of future cash flows. For the financing of individuals, funding is granted to the various segments according to approved criteria of: age, type of activity, work period, credit history, monthly income of the customer and the maximum deduction of the monthly installment.

Collaterals

The Bank uses a range of policies and procedures to mitigate credit risk. Collaterals are one of the most traditional methods of granting credit facilities in order to mitigate the risk of default. The Group is committed to applying the regulations issued by the Central Bank regarding the acceptance and fulfillment of collaterals. The following are the main types of collaterals for financing assets:

- Financial instruments such as deposits and traded investment securities
- Mortgage assets such as real estate, equipment, vehicles and inventory
- Mortgage residential, commercial and industrial properties.
- Commercial guarantees.

Risks of credit commitments

The Bank provides letters of credit to its customers in which the Group is obliged to make specific payments when the customer fails to meet their obligations to third parties. The Group is therefore exposed to similar risks associated with Islamic financing and investment assets, which are mitigated through the aforementioned monitoring processes and policies

35/2/1- Collaterals and other credit enhancements

The amount and type of collateral required depends on the credit risk assessment of the counterparty where the controls issued by the central bank are applied to accept the type of collateral and the relevant valuation criteria.

The following are the main types of collateral obtained:

- Corporate Islamic financing and investment facilities: mortgage on real estate, inventory, leased assets and trade receivables.
- Individuals Islamic financing and investment facilities: mortgage on assets and mortgages on real estate.

The Bank also accepts collaterals from the holding companies in exchange for the Islamic financing and investment assets provided to their subsidiaries.

35/2/2- Evaluation of impairment

The main considerations for assessing impairment are attributed to the period of time for the customer to default on the post-maturity financing as the financing is classified and the proportion of provisions is calculated based on the period of default in accordance with the Central Bank regulations. Finance collaterals has major importance when calculating provisions where provisions are reduced based on the type and value of the collateral.

The extent to which an allowance for impairment of Islamic financing and investment assets is required, is assessed on a monthly basis and reviewed separately for each portfolio.

35- Financial Risk management (continued)

35/3- Liquidity risk and financing management

Liquidity risk is the risk that the Group will be unable to meet its financial obligations when due under normal and critical circumstances. To mitigate these risks, the Bank has provided a variety of financing sources as well as its core deposit base and asset management with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The procedure includes the assessment of the expected cash flows and the existence of a high quality assurance that may be used to ensure additional funding when needed.

The Group maintains a portfolio of highly diversified and liquid assets that can be easily liquidated in the event of a sudden drop in cash flows. The Group also has limits on committed credit facilities that can be used to meet its liquidity needs. In addition, the Group maintains necessary deposits with central bank. The liquidity position is assessed and managed according to multiple scenarios, taking into consideration concentration on exceptional factors related to the market in general and the Group in particular.

The high quality of the asset portfolio ensures the availability of liquidity as well as Group funds and fixed customer deposits that help to form a stable source of funding so that the Group will be able to obtain the necessary funds to cover the needs of the customers and meet its funding requirements.

35/3/1- Liquidity risk management procedures

The main instrument (as well as other means) used to monitor liquidity is the analysis of the maturity profile of assets and liabilities, which are monitored over successive time periods for all types of currencies used. Whereby recommendations are made on the management of accumulated negative cash over successive time periods (as presented in the report denominated in Sudanese pound).

The Group's liquidity risk management procedures, which are monitored by the various risk management teams, include:

- The position of daily financing, which is managed by monitoring future cash flows to ensure that the obligations can be met. This includes the provision of funds when they are due or financed by customers.
- Maintaining a highly liquid asset portfolio that can easily be liquidated as a guarantee in the event of a sudden drop in cash flows.
- Monitoring the liquidity of the financial position against internal and regulatory requirements.
- Managing the concentrations of maturity dates of Islamic financial and investment portfolios.
- Monitoring the position of daily liquidity rates under daily reports and review ratios according to the controls of the Central Bank

35/3/2- Funding Methodology

Liquidity sources are regularly reviewed by management to maintain a wide variety of currencies, geographical areas, service providers, products and conditions.

The note no. 35/3/2 shows the contractual maturities of assets and liabilities of the group which have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date.

Management monitors the maturity profile to ensure that adequate liquidity is maintained.

Bank of Khartoum**Notes to the Consolidated Financial Statements****For the year ended December 31, 2019****35-Financial Risk management (continued)****35/3-Liquidity risk and financing management (continued)****35/3/2 -Funding Methodology (continued)****Maturities of assets and liabilities as of December 2019**

	within 3 months	3-6 months	6 months to one year	Over one year	Total
	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG'000</u>	<u>SDG -000</u>	<u>SDG -000</u>
ASSETS					
Cash, balances with banks and CBOS	54,693,989	-	-	-	54,693,989
Investment accounts with banks and financial institutions	543,946	439,737	35,467	3,245,618	4,264,768
Deferred sales receivables, net	6,076,534	1,045,641	8,390,472	7,625,440	23,138,087
Investment in Sukuk and financial securities	3,638,265	-	-	2,045,398	5,683,663
Investment in mudaraba and musharaka	159,021	272,758	210,530	46,406	688,715
Investment property	-	-	-	2,810,082	2,810,082
Available for sale investments	-	-	20,898	378,381	399,279
Other assets	262,351	-	112,140	7,209,270	7,583,760
Intangible fixed assets	-	-	-	292,469	292,469
Property and equipment	-	-	-	3,828,054	3,828,054
Total assets	65,374,105	1,758,136	8,769,507	27,481,118	103,382,867
LIABILITIES					
Current accounts	17,298,687	5,766,229	7,688,306	7,688,306	38,441,527
Margins on letter of credits & letter of guarantee	65,757	40,044	570,370	44,004	720,175
Other liabilities	2,354,517	23,987	429,182	423,555	3,231,241
Provisions	107,052	-	204,170	122,077	433,299
Total liabilities	19,826,012	5,830,259	8,892,028	8,277,942	42,826,241
Unrestricted investment accounts holders	20,161,590	12,676,861	11,941,521	10,226,204	55,006,175
Total equity attributable to shareholders of the Group	-	-	-	5,128,516	5,128,516
Non-controlling interest	-	-	-	421,934	421,934
Total liabilities, unrestricted investment account holders' equity and equity	39,987,602	18,507,120	20,833,549	24,054,596	103,382,867

Bank of Khartoum**Notes to the Consolidated Financial Statements****For the year ended December 31, 2019****35-Financial Risk management (continued)****35/3-Liquidity risk and financing management (continued)****35/3/2 -Funding Methodology (continued)**

maturities of assets and liabilities as of December 2018

	within 3 months	3-6 months	6 months to one year	Over one year	Total
	<u>SDG' 000</u>	<u>SDG' 000</u>	<u>SDG' 000</u>	<u>SDG' 000</u>	<u>SDG' 000</u>
ASSETS					
Cash, balances with banks and CBOS	37,285,717	-	-	-	37,285,717
Investment accounts with banks and financial institutions	451,420	23,312	380,319	-	855,051
Deferred sales receivables	6,257,819	5,326,792	8,514,522	7,111,064	27,210,197
Investment in Sukuk and financial securities	1,340,844	678,906	1,405,243	138,548	3,563,541
Investment in mudaraba and musharaka	115,293	35,000	48,237	206,154	404,684
Investment property	-	-	-	2,819,164	2,819,164
Available for sale investments	6,077	-	20,898	241,239	268,214
Other assets	1,066,394	1,023,922	3,512,464	1,530,508	7,133,288
Intangible fixed assets	-	-	-	299,931	299,931
Property and equipment	-	-	-	3,026,798	3,026,798
Total assets	46,523,564	7,087,932	13,881,683	15,373,406	82,866,585
LIABILITIES					
Current accounts	11,017,922	3,676,414	4,901,885	9,731,858	29,328,079
Margins on letter of credits & letter of guarantee	3,710,864	1,374,247	759,031	43,000	5,887,142
Other liabilities	1,181,641	726,052	217,711	165,785	2,291,189
Provisions	88,793	85,893	197,410	215,431	587,527
Total liabilities	16,960,381	6,823,767	8,959,519	10,156,074	38,093,937
Unrestricted investment accounts holders	13,030,625	10,299,872	8,772,203	7,182,085	39,284,785
Total equity attributable to shareholders of the Group	-	-	-	5,049,272	5,049,272
Non-controlling interest	-	-	-	438,591	438,591
Total liabilities, unrestricted investment account holders' equity and equity	29,991,006	17,123,639	17,731,722	22,826,022	82,866,585

35- Financial Risk management (continued)

35/4- Market risk

Market risk arises from changes in market prices such as profit rates, foreign exchange rates, equity prices and associated fluctuation. The objective of market risk management is to limit the value of potential losses in respect of open positions that may result from unexpected changes in profit rates, foreign exchange rates or equity prices. The Bank is exposed to the risk of using a variety of financial instruments including securities, foreign currencies, equities and commodities.

The Group uses flexible special models that help keep pace with current market practices in order to assess its position and obtain market-specific information to monitor market risk

The market risk management framework includes the following elements:

- setting limits to ensure that acceptable risks do not exceed the total value of risk and concentration criteria established by senior management;
- Conducting an independent evaluation based on market prices, settlement of the centers and monitoring the timely reduction of losses related to the commercial centers.

Policies, procedures and limits have been established to ensure that the Bank's market risk management policy is applied in day-to-day operations. These procedures are reviewed periodically to ensure consistency with the Bank's overall market risk management policy. In addition to the procedures and internal regulations adopted, the Bank shall comply with the rules and regulations issued by the Central Bank of Sudan issued in this regard.

35/4/1- Profit margin risk

The Bank is not exposed to material risk in terms of the re-pricing of its liabilities since, in accordance with Islamic Shariah, the Bank does not provide a guaranteed contractual rate of return to its depositors or investment account holders. The return due to depositors and investment account holders is based on the Mudaraba principle whereby depositors and investment account holders agree to participate in profit and bear losses (as capital provider) of the Bank's Mudaraba assets portfolio within a certain period.

35/4/2- Profit rate risk

Profit rate risk arises from the possibility that changes will affect profit rate, which in turn affects future earnings or fair values of financial instruments. The Bank is exposed to profit rate risk as a result of gaps between the amounts of assets and liabilities and off-balance sheet financial instruments at their maturity date or re-pricing within a given period of time. The Bank manages these risks through risk management strategies.

The effective profit rate (effective yield) of a financial instrument that is of a economic nature is the rate used to calculate the present value to determine the carrying amount of the financial instrument. This is the current rate of a variable-rate financial instrument or instrument recorded at fair value. The historical rate of a financial instrument is the rate at which a fixed rate is recorded at amortized cost.

35/4/3- Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will change due to changes in foreign exchange rates. The Bank is also exposed to foreign exchange risk in transactions denominated in currencies other than the Sudanese pound. The Bank monitors the level of exposure to these risks as a whole for each currency on a daily basis.

35- Financial Risk management (continued)**35/4- Market risk (continued)****35/4/3- Foreign exchange risk (continued)**

The Bank has significant revenues in its overseas branches and is therefore exposed to the risk of fluctuations in foreign exchange rates used to transfer revenues.

The following table summarizes the foreign exchange risk in accordance with the foreign currency balances of the major currencies at December 31:

	Dollars	Euro	UAE Dirham
	Credit position	(Debit) position	Credit position
Assets	160,683,206	109,887,606	1,315,527,064
Liabilities	(107,207,692)	(119,417,657)	(536,119,505)
December 31, 2019	53,475,514	(9,530,051)	779,407,560
Assets	162,633,300	44,367,838	1,014,402,545
Liabilities	(111,045,298)	(88,587,186)	(13,506,435)
December 31, 2018	51,588,002	(44,219,348)	1,000,896,110

The following are the exchange rates prevailing for the major currencies during the year:

	2019		2018	
	Closing price	Average price	Closing price	Average price
US Dollar	45.1125	45.5659	47.5000	32.9670
Euro	50.5355	51.0273	54.2792	38.6131
UAE Dirham	12.2833	12.4530	12.9333	8.9758

35/4/4- Equity price risk

Equity price risk is the risk that the fair values of equities will decline due to changes in equity indices and the value of individual equity prices. Non-commercial equity price risk arises from the investment portfolio.

35/5- Operational risk

Operational risk is the potential exposure to financial or other damage resulting from the inefficiency or failure of internal processes, persons and systems or from external events

The Bank has developed a detailed operational risk framework. This framework clearly defines the functions and responsibilities of individuals / units in the various departments of the Bank that perform the various tasks related to operational risk management. The Operational Risk Management Framework ensures that operational risks are identified, monitored, managed and reported properly. Key elements of this framework include the development of a loss database, identification of key risk indicators, risk analysis and reporting on operational risk management.

35- Financial Risk management (continued)

35/5- Operational risk (continued)

Each new product is subject to risk review and approval procedures where all related risks are identified and evaluated by divisions independent of the unit presenting the product. Adjustments to existing products are also subject to similar processes as business and support units are responsible for operational risk management in their functional areas.

Regular risk management practices include identification and analysis of potential risk areas by monitoring operational risk losses in the various divisions reported by the coordinators, key risk indicators, self-assessment of risk control and risk-related events in general. These are used to adopt and apply recommendations for mitigation and finally prepare materials for periodic awareness of operational risks in order to enhance the general culture of the Bank's environment.

In addition to the responsibility of the department to develop and update the policies and procedures of the business continuity plan, the department performs an assessment and analysis of the risks resulting after each test periodically through monitoring during the implementation of the plan by the business continuity plan team.

36- Comparative figures

The comparative figures presented for 2018 have been reclassified where necessary to preserve consistency with the 2019 figures.

However, such reclassifications did not have any effect on the consolidated net profit or the total consolidated equity for the comparative year.

37- Approval of consolidated financial statements

These consolidated financial statements were approved and authorised for issue by resolution from the Board of Directors on April 02, 2020.